PREFACE

This profile on Doing Business in Indonesia has been prepared by Drs. Thomas, Trisno, Hendang & Rekan, the independent member of Baker Tilly International in Indonesia. The profile is designed to provide information on a number of subjects important to those contemplating investing or doing business in Indonesia.

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Doing Business in Indonesia has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this booklet may not be comprehensive and recipients should not act upon it without seeking professional advice.

Up-to-date advice and general assistance on Indonesia matters can be obtained from Baker Tilly International's Indonesian member firm. Please see their details in the back cover of this booklet.

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1 INTRODUCTION

1.1. Geography

The Republic of Indonesia is the largest archipelagic country in the world, comprising 17,508 islands stretching along 5,120 kilometres from east to west and 1,760 kilometres from north to south. The islands scatter over more than one tenth of the equator between Southeast Asia and Australia, covering a land area of around 2 million square kilometres and territorial waters nearly four times that size.

1. Main islands:
   - Java, Bali, Sumatera, Kalimantan, Sulawesi and Papua.
   - There are two large groupings of smaller islands: Maluku and Nusa Tengara.

2. Main cities:
   - Jakarta, the capital city of the Republic of Indonesia located on the north west coast Java, is the government and economic center of Indonesia.
   - Surabaya, Indonesia's second largest city, located in East Java, is the leading industrial centre and port.
   - Bandung, in West Java, is the third largest city about 180 kilometres southeast of Jakarta.
   - Other importance cities are Semarang, Yogyakarta, Padang, Medan, Palembang, Makasar, Banjarmasin, Bandar Lampung and Manado.

1.2. Culture

1. Ethnic group
   Indonesian people consist of a variety of ethnic groups and each ethnic has its character, which enrich the Indonesian culture and is a solitude attraction.

2. Religion
   Religious life is various since any citizen is given the freedom to follow it based on their conviction and belief. The majority of Indonesians profess Islam, whilst others profess Catholic Christianity, Protestant Christianity, Hindus and Budhists.

1.3. Climate

The country has a tropical climate, characterised by wet and dry monsoon periods, with slight changes of temperature, low winds and high humidity. Indonesia's temperature ranges between 16^0C and 35^0C (77^0 F and 90^0 F) and its humidity ranges between 80 to 90%.

1.4. Population

In 2002, Indonesia's population reached 212 million spread over the regions of the country: Java island (58.65%), Sumatera island (21.15%), Sulawesi island (7.27%), Kalimantan island (5.58%) and the rest are in the other islands. Annual growth rate of population is about 1.5%.

1.5. Political System and Governmental Structure

Under the 1945 Constitution, the form of government is a Republic, and the people's power is represented by the People's Consultative Assembly (Majelis Permusyawaratan Rakyat/MPR). The President of the Republic of Indonesia is elected by MPR every 5 years and given the mandate to run the government for a 5 year term.

Since 1999, there has been a change in government administration from centralised to decentralised. The regional governments have been given more authority to manage the development of their region. Nowadays, the Republic of Indonesia consists of 32 provinces, 271 regencies and 73 cities.

1.6. Language

Although there are about 365 languages and dialects spoken within Indonesia, the majority of Indonesians understand the Indonesian national language, Bahasa Indonesia. Dutch is still spoken by the older educated generation, and English, Dutch and Chinese are commonly spoken within the Indonesian business community.

1.7. Currency

The Indonesia currency is the Rupiah (Rp), in which most local transactions are conducted. However, special transactions could be conducted in US Dollars, like rents, professional services and sales of imported goods and export commodities. During January until September 2003 the average exchange rate was approximately US$ 1= Rp. 8.600.

1.8. Economy

Indonesia's developing economy is largely based upon primary industries notably agriculture and natural resources such as oil and gas, minerals and forestry. The industrial sector has become increasingly important.

Table 1. The Growth of Indonesian Economy (Percentage)

Period	The Growth of Indonesian Economy
2001	3.44
2002	3.66
2003	3.99

Sources: 2001and 2002 used Sakernas Indonesia's Central Board of Statistics.
2003 used National Planning Development Board Projection.

GDPs at current market prices of Indonesia were Rp. 1,099.7 trillion in 1999 and Rp. 1,264.9 trillion in 2000 and Rp. 1,449.3 trillion in 2001 and Rp. 1,610.0 trillion in 2002. The percentage of contribution of economic sectors to GDP was as follows:

Table 2. Percentage Distribution of Gross Domestic Product at Current Market Prices by Industrial Origin 2001-2003 (Percentage)

Industrial Origin	2001	2002	Second Quarter	
			2002	2003
1. Agriculture, Livestock, Foresty and Fishery	16.99	17.47	17.81	17.85
2. Mining and Quarrying	13.23	11.91	13.03	10.20
3. Manufacturing Industry	24.98	25.01	24.55	24.54
4. Electricity, Gas and Water Supply	1.46	1.81	1.73	2.09
5. Construction	5.88	5.74	5.64	5.94
6. Trade, Hotel and Restaurant	16.16	16.08	15.77	16.48
7. Transport and Communication	5.23	6.05	5.82	6.53
8. Financial, Ownership and Business Service	6.31	6.56	6.52	6.57
9. Service	9.75	9.38	9.14	9.80
GDP	**100.00**	**100.00**	**100.00**	**100.00**
GDP non-oil and gas	**87.03**	**88.30**	**87.09**	**90.59**

Sources: Indonesia's Central Board of Statistics

Table 3. Monthly Inflation Comparison, Calendar Year, Year on Year 2001-2003 (Percentage)

Inflation	**2001**	**2002**	**2003**
1. August	-0.21	0.29	0.84
2. January-August (Calendar Year)	7.48	5.61	2.11
3. August (year n) on August (year n-1)	12.23	10.60	6.38

Sources : Indonesia's Central Board of Statistics

Export-import plays a vital role in Indonesia's economy and economic development. In 2002, exports totaled US$57,158.8 million and imports US$31,288.9 million. Total trade activities (including petroleum and gas) in four years were as follows:

Table 4. Trend Value of Exports and Imports (Million US$)

Year	**Exports**	**Imports**	**Trade Balance**
1999	48,665.4	24,003.3	24,662.1
2000	62,124.0	33,514.8	28,609.2
2001	56,320.9	30,962.1	25,358.8
2002	57,158.8	31,288.9	25,869.9

Sources: Indonesia's Central Board of Statistics

2 BUSINESS ENTITIES AND ACCOUNTING

2.1. Investment Environment

Indonesia offers some comparative advantages to investors, with an attractive range and combination such as:

1. A vast, fertile country endowed with rich and diversified natural resources, among others agricultures, plantations, fisheries, mining, oil and gas.
2. A large population of about 212 million and dynamically adaptive to progress, constituting a huge potential market as well as a competitive work force.
3. A strategic location, controlling vital international sea communication lines.
4. A more democratic country.
5. An open market-oriented economy, with free foreign currency exchange regime.
6. A favorable business and investment climate.

2.2. Legal Aspect

The legal aspects to be considered while investors set up investments are:

1. Foreign Capital Investment Law No.1 of 1967
   a. Foreign Direct Investment (FDI), further referred to as Penanaman Modal Asing (PMA), is a status of doing business and governed primarily by the Foreign Capital Investment Law No.1 of 1967, as amended by Law No.11 of 1970. Based on the law the government has been introducing various policies and measures on FDI where now great efforts are given to promoting FDI in Indonesia.
   b. The PMA company is granted a period of 30 years to operate after its legal formation. If within the said period of time it commits an additional investment (expansion of its project), another 30 years of time is granted for the expansion project. This period can be extended for another 30 years.
2. Domestic Capital Investment Law No. 6 of 1968
   Domestic Direct Investment, further referred to as Penanaman Modal Dalam Negeri (PMDN), is a status of doing business for businesses that are entirely owned by Indonesian capital either jointly between company(ies) or individual(s) governed primarily by the Domestic Capital Investment Law No.6 of 1968, as amended by Law No.12 of 1970.

3. Corporate Law No.1 of 1995
   The most common legal entity in the business community is a Corporate Company – Perseroan Terbatas (PT), which can be either foreign direct investments or domestic direct investments.

4. The Government Regulation No.20 of 1994 on Share Ownership
   a. In general a PMA company is established as a joint venture between foreign and Indonesian partners. The partnership may involve legal entities (corporations) or individual persons. There is no requirement on the minimum capital, it is for the parties concerned to determine, based on their economies of scale and business considerations.
   b. A PMA company may be established as a straight investment, or 100% foreign ownership. It is required, however that within 15 years of commercial operation, the company starts to be divested by selling some of its shares to Indonesian individual(s) and / or business entities, through direct placement and / or indirectly through domestic stock exchange provided that the Indonesian share is maintained at at least 5%.
   c. PMA companies in infrastructure projects such as ports, generation and transmission as well as distribution of electricity for public use, telecommunications, shipping, airlines, potable water, public railways and nuclear electric power generation should be established by way of joint ventures between foreign and Indonesian state-owned enterprises.

2.3. Companies

1. The limited liability company (Indonesian acronym: PT for Perseroan Terbatas) is a legal person having shares with limited liability of shareholders.

2. A PT is managed by a Board of Directors (mandatory), which is supervised by a Board of Supervisors (not mandatory). The Board of Directors and the Board of Supervisors are responsible to the General Meeting of Shareholders.

3. Minimum of 2 founders are required.

4. Joint and several liability of founders exists until the approved Deed of Establishment has been obtained.

5. Joint and several liability of Directors exists until the approved Deed of Establishment is registered with the Court of First Instance and published in the State Gazette.

6. The Minister of Justice will normally approve the Deed of Establishment if the following conditions are met:

   - There is no serious objection to the establishment of the company
   - The company established is neither against good morals nor the public order
   - The Articles of Association contain no provisions that are contrary to the Commercial Code
   - At least 20% of the authorised capital has been issued
   - At least 10% of the issued capital has been paid up
   - A certain period has been determined when the remaining share capital will be issued.

2.4. Partnerships

Companies operating in Indonesia need to be aware of the legal status of partnerships as they are a common operating structure. As the basic legislation relating to partnerships dates from the colonial period, they are still referred to by their Dutch names:

A. Maatschap (basic partnership)

- Used by professionals
- Assets can be held separately by the partnership
- Restricted authority of one partner to bind other partners
- Joint liability of partners for equal parts only
- No several liability
- Unlimited liability of partners.

B. Firma (disclosed partnership)

- Used by trading and service enterprises
- Assets can be held separately by the partnership
- Partners can bind the partnership to third parties
- Joint and several liability of partners
- Unlimited liability of partners.

C. Commanditaire Vennootschap (CV-limited partnership)

- Used by trading and service enterprises
- Assets can be held separately by the partnership
- Silent partner contributes capital and liability is limited to the amount of such contribution
- Silent partner may not participate in the management
- Management rests with active partners
- Active partners have unlimited liability.

2.5. Sole Proprietorships

Foreign investors are not permitted to establish sole proprietorships in Indonesia.

2.6. Branches

Foreign corporations are allowed to register branches only in exceptional circumstances. In recent years, no branches have been registered. In the event of permission being granted for registration, the procedures would be determined by the relevant Ministries on a case-by-case basis.

2.7. Audit and Accounting Requirement

Accountants in Indonesia are regulated by the Indonesian Association of Accountants (IAI). The accounting profession has approximately 33,500 registered public accountants, the majority of whom are in the service of the Government. There are approximately 937 registered accounting firms in Indonesia providing services such as auditing, accounting, taxation and management consulting.

A. Accounting Records

The Indonesian Commercial Code states that businesses are obliged to maintain accounting records so that at any time the financial position can be determined. Businesses are obliged to draw up a balance sheet within 3 or 6 months of the end of the financial year. There are general requirements to lodge financial statements with a statutory body for registration, except for:

1. Foreign investment companies
2. Reporting to Bank Indonesia
3. Public/Listed Companies
4. Companies who manage public funds
5. Tax office requirements
6. Capital Investment Coordinating Board (BKPM)
7. Foreign company and company with total assets more than Rp. 25 billion have to report to the Department of Trade and Industry.

The tax law requires that taxpayers carrying on business or independent work in Indonesia maintain books and records that accurately reflect the financial position of the business. Such books must be in Indonesian or English and be denominated in Rupiah, or US$ where approved by the Minister of Finance.

The tax law also requires taxpayers to retain books, records and other documents connected with the business for 10 years.

The Commercial Code requires also that the books and records and a copy of the annual balance sheet be retained for 10 years. However, in practice few businesses retain their records for a 10 years period and penalties have not been imposed.

The generally accepted accounting principles of Indonesia are neither as comprehensive nor as precise as the current principles enunciated by the recognised accounting bodies in some other countries. Therefore, in practice, companies may need to draw on the practices and pronouncements of accounting bodies in other countries for guidance in the adoption of accounting principles and disclosures in financial statements.

The basic financial statements, prepared in accordance with the requirements of financial statements presentation referred to above, consist of the following:

1. Balance sheet
2. Income statement (profit and loss account)
3. Statement of changes in equity
4. Statement of changes in financial position
5. Notes to the financial statements.

B. Audit

Audits are required for companies listed on the stock exchange, banks, underwriters, stock brokers, leasing companies, foreign companies and companies with total assets more than Rp. 25 billion. Companies established under the Foreign Capital Investment Laws are usually required by Capital Investment Coordinating Board (BKPM) and Bank Indonesia to have an audit performed by a registered public accountant. Foreign public accountants are not allowed to work in Indonesia, accordingly audit opinions required on an Indonesian entity must be issued by an Indonesian registered public accountant.

Audit and other attestation services in Indonesia have to be performed in accordance to Public Accountants Professional Standard. Other standard setting bodies for special examination purposes are Bank Indonesia and Capital Market Supervisory Agency (BAPEPAM).

3 FINANCE AND INVESTMENT

3.1. Exchange Control

No exchange controls are in existence and the rupiah is freely convertible. Investors are therefore able to move funds freely in and out of the country through local or foreign currency-denominated accounts. Bank Indonesia is responsible for the foreign exchange regulations.

3.2. Sources of Finance

A. Banking, Insurance and Leasing

Bank Indonesia, as an independent Central Bank, has one single objective of achieving and maintaining stability of the rupiah's value. In the pursuit of this objective, it has three tasks which are formulating and implementing monetary policy system, regulating and ensuring a smooth payment system, regulating and supervising the national banking system.

Relating to foreign investment, Bank Indonesia plays the following roles:
1. Issuing a letter of clearance for final draft loan agreement of Foreign Direct Investment (FDI) companies
2. Monitoring the FDI accounts
3. Ensuring that the capital for FDI projects originates mostly from offshore
4. Registering all offshore loans received by FDI companies.

To support business activities in Indonesia, there are foreign banks operating in Indonesia, such as: Citibank, Hongkong and Shanghai Banking Corp., ABN AMRO, Bank NV, Deutsche Bank AG, Standard Chartered Bank, The Bank of Tokyo Mitsubishi Ltd, American Express Bank, Chase Manhattan Bank N.A., The Bangkok Bank Comp. Ltd, Bank of America N.A., National Australia Bank Ltd., Westpac Banking Corporation, Bank Nationale de Paris.

Other financial institutions include 176 insurance companies both international and national, and 145 leasing companies.

B. Stockmarkets

Capital Market Supervisory Agency (BAPEPAM) was established in 1976 under the Ministry of Finance. Its structure consists of three activities on Securities Exchanges, Clearing Guarantee Corp. and Central Security Depository. There are two stock exchanges, namely Jakarta Stock Exchanges (JSX) and Surabaya Stock Exchange (SSX). The JSX is based on an order-driven market system, wherein transactions stem from orders from a brokerage company. In October 2003 there were 326 listed companies on the JSX. Meanwhile, the SSX was officially opened on 1989 with only 36 shareholders. In 2001 there were 256 listed companies on the SSX.

C. Venture Capital Companies

For businesses that are not large enough to consider Stock Exchange entry but which require finance, Venture Capital Companies can provide equity for start-ups, for development or for management buy-outs. Venture capital companies may also be a source of finance for a business that does not have sufficient security to borrow from a bank, but they may require a higher return.

3.3. Investment Incentives

A. Import Duties

All investment projects of PMA as well as PMDN projects which are approved by the Investment Coordinating Board or the Office of Investment in the respective districts, including existing PMA and PMDN companies expanding their projects to produce similar product(s) in excess of 30% of installed capacities or diversifying their products, will be granted the following facilities:

1. Relief from import duty so that the final tariffs become 5%. In the case of tariffs of import duty which are mentioned in the Indonesian Customs Tariff Book (BTBMI), being 5% or lower, the effective tariffs shall be those in BTBMI.

- On the importation of capital goods namely machinery, equipment, spare parts and auxiliary equipments for an import period of 2 years, starting from the date of stipulation of decisions on import duty relief.
- On the importation of goods and materials or raw materials regardless of their types and composition, which are used as materials or components for two years full production (accumulated production time).

2. Exemption from Transfer of Ownership Fee for ship registration deed/ certificate made for the first time in Indonesia.

B. Tax Facilities

1. The government has introduced a Tax Bill No's 16, 17, 18, 19 and 20 of 2000 applied since 1 January 2001. Based on this tax law, domestic and foreign investors will be granted tax allowance in certain sector and/or areas as follows:
   - Investment Tax Allowance in the form of taxable income reduction as much as 30% of the realised investment spread over 6 years
   - Accelerated depreciation and amortisation
   - A loss carried forward facility for period of no more than 10 years
   - A 10% income tax on dividends and possibly lower if stipulated in the provisions of an existing tax treaty.

2. The government has also introduced provisions No's 146 of 2000 and 12 of 2001 on the importation and/or delivery of Selected Taxable Goods and/or the provisions of Selected Strategic Goods which are exempted from Value Added Tax.

C. Export Manufacturing

There are many incentives provided for exporting manufacture products. Some of these incentives are as follows:

1. Restitution (drawback) of import duty on the importation of goods and materials needed to manufacture the exported finished products.
2. Exemption from Value Added Tax and Sales Tax on luxury goods and materials purchased domestically, to be used in the manufacturing of the exported products.
3. The company can import raw materials required regardless of the availability of comparable domestic products.

D. Bonded Zones

Industrial companies, which are located in the bonded areas are provided with many incentives as follows:

1. Exemption from import duty, excise, income tax of Article 22, Value Added Tax on luxury goods on the importation of capital goods and equipment including raw materials for the production process.
2. Allowed to divert their products amounted to 50% of their export (in term of value) for the final products and 100% of their exports (in terms of value) for other than final products to the Indonesian customs area, through normal import procedure including payment of customs duties.
3. Allowance to sell scrap or waste to Indonesian custom area as long as it contains less than 5% of the amount of the material used in the production process.
4. Allowance to lend their machines and equipment to their subcontractors located outside bonded zones for no longer than 2 (two) years in order to further process their own products.
5. Exemption of Value Added Tax and Sales Tax on luxury goods on the delivery of products for further processing from bonded zones to their subcontractors outside the bonded zones or the other way around as well as among companies in these areas.

The free-trade zone located in the main port area of Tanjung Priok (Jakarta) is administered by PT Bonded Warehousing Indonesia (PTBWI), a semi governmental organisation. Investors wishing to set up their projects in bonded areas may make an application through the Bonded Area Authority to the Capital Investment Coordinating Board (BKPM).

E. Free Zones

As a means of boosting foreign trade and attracting foreign investment in export-oriented industries, Indonesia has established a system of duty-free or bonded zones in two locations of strategic importance. The bonded zones combine the characteristics of a free-trade zone and an industrial estate. Supported in each location by an infrastructure comprising advanced systems for cargo handling, shipping and communications, the bonded zones enable manufacturers to import, store and transship goods and components free of all duty when used in the production of goods for export.

The Batam Island free-trade zone is also administered by PTBWI for export-oriented and labour-intensive light manufacturing industries. In addition, foreign enterprises can set up their own bonded warehouses, subject to the approval of the Director General of Customs. The government plans to establish more bonded warehouses at Cakung (outskirts of Jakarta), Surabaya, Semarang, Medan/Belawan, Cilacap, and Ujung Pandang. These zones offer the following advantages and incentives:

1. Less complex procedures in obtaining land titles, building permits, site information, and other infrastucture facilities
2. Employment of foreign expert personnel as required
3. 95 percent foreign ownership with no subsequent divestiture required
4. Licenses issued by regional administration not required.

F. Inward Investment

As stated above, no exchange controls are in existence. Investors are, therefore, able to move funds freely in and out of the country through local or foreign currency-denominated accounts. Upon the approval of a new foreign investment by the BKPM, an exchange rate is set for translating the approved foreign investment into share capital that is denominated in Indonesian rupiah. The exchange rate approved by BKPM is based on the prevailing rate on the foreign exchange market when the investment plan is approved and is fixed for the total foreign equity investment, including any subsequent expansion.

Any rupiah difference arising on receipt of foreign capital, due to a movement in the rate of exchange, is accounted for as a premium (agio) or discount (disagio) in the books of the foreign joint venture company. Bonus shares may not be issued out of such a premium, but any such premium or discount would form part of the repatriable capital in the event of a liquidation.

G. Representative Office

A foreign company may establish a representative office in Indonesia in one of the provincial capitals. Its activity is limited to supervising and coordinating the business of its principal and branches. The office is not allowed to make any business transactions with companies or persons in Indonesia either for export or import or domestic trading.

The representative office can:
a. Obtain work permits for expatriate managers
b. Obtain multiple entry visas for its expatriate personnel as well as exemption from exit-tax (SKFLN).

The representative office is led by one or more foreign or Indonesian citizens who are appointed by a foreign company or joint foreign companies as their representatives with the intention of:

a. Handling the company or its affiliates concerns
b. Preparing the establishment and development of foreign direct investment companies, in Indonesia or in other countries and Indonesia.

4 EMPLOYMENT

4.1. Work Permits

The Indonesian foreign and domestic investment laws allow the employment of expatriate personnel in positions that cannot be filled by Indonesian nationals. Permits will be issued only to companies having operating licenses (surat ijin usaha perdagangan-SIUP). A firm wishing to employ expatriates must, after having obtained the approval of the government, do the following:

1. Prepare a manpower utilisation plan (RPTK) for submission to BKPM for validation.
2. Based on the validated RPTK, submit an application for a permit to utilise foreign personnel. Work permits for foreign personnel (IKTA) are issued by the Regional Office of the Investment Coordinating Board (BKPMD), based on the RPTKA (for foreign personnel) and letter of recommendation (TAO1) issued to BKPMD by BKPM. BKPMD issued the work permit for the Chairman of BKPM and on behalf of the Minister of Manpower.

The permits may be for a year or for a shorter term to allow for irregular visits by an expatriate working in Indonesia (e.g. for a week, a month or two months).

The application for a work permit to utilise foreign personnel must include the following:
1. Name and address of employer in Indonesia
2. Name and address of employee
3. Description of the position to be filled
4. Proposed period of employment
5. Programmes planned or being implemented by the employer to train Indonesian nationals for the position
6. A letter of recommendation (TAO1).

It is not unusual for a work permit application to take two or three months. Extension permits are available. Foreigners to be employed must also be in possession of an entry permit (kartu ijin masuk-KIM) and a police certificate card (surat tanda melapor diri-STMD).

4.2. Labour Environment

Indonesia's population in 2002 was more than 212 million. The Indonesian labour force amounted to 102.88 million in 2003. The labour force has increased by approximately 2.10 million per year.

4.3. Engagement and Dismissal

Labour unions and employers are free to negotiate on a voluntary basis and enter into collective agreements concerning wages and conditions of employment. Such agreements must be approved by the government and are to be valid for a maximum-time period of three years. It is usual to engage employees on the basis of a 3 months trial period. If the employee is found to be unsatisfactory during that period of time, he/she may be dismissed. It is a common practice to give an employee 3 written warnings prior to termination of service. In the case of a serious offence such as theft or other crimes, the employment may be terminated without warning. Warning expires after the following time periods:

1. First warning, after 6 months
2. Second return warning, after 9 months
3. Third return warning, after 12 months

Upon termination of service, an employee is entitled to 1 to 2 months wages for each year of service up to 4 year plus 1 to 2 months pay for each year of subsequent 5 years of service. An employee who resigns is not entitled to a termination payment.

4.4. Trade Unions and Worker Councils

- Workers in every company are encouraged to establish a labour union.
- Since 1999, in the spirit of national reform, there are a growing number of labour unions representing 62 different industrial sectors.

4.5. Social Security

Employee's Social Security provides protection for the employee in the form of cash benefits, for partial replacement of the loss or the reduction of income and services, as a result of circumstances suffered by the employee due to employment accident, sickness, maternity, child birth, old age and death. In 1977, the Government implemented a Worker's Social Insurance Programme (ASTEK) nowadays known as The Employees' Social Security (JAMSOSTEK). Private and state-owned enterprises are required to join the JAMSOSTEK Programme.

4.6. Institutions for Human Resources Development

Vocational training facilities are available in most of the provinces of Indonesia which are coordinated by Ministry of Manpower and Transmigration and Technical Departments. All State Universities provide education, which focuses on supplying skilled manpower.

4.7. Working Conditions

A. Wage Rates

Indonesia has competitive average wage rates in Asia although there are considerable differences between industries and locations. For example, wages in the oil industry are much higher than those in the agriculture sector. Wages in urban Jakarta are much higher than in rural Java.

According to Government Regulation No.47/2003, income tax for employees on up to Rp. 1 million monthly salaries will be borne by the Government.

B. Fringe Benefits

Fringe benefits commonly include:
- Payment of income tax due on salary and wages
- An annual bonus of one months pay, usually paid at Lebaran (the annual Moslem celebration)
- Loans
- Medical expenses
- Travel and meal allowances, work clothes and the like
- Payment of labour's insurance premium (Jamsostek or other insurance coverage).

C. Home Leave and Holidays

An employer is required to allow an employee the following paid leave benefits:

- Annual leave of at least two weeks per annum
- Sick leave for a period of up to twelve months
- Maternity leave of 3 months.

In addition to that, employees are entitled to enjoy national holidays determined by the Government.

D. Working Hours

The basic weekly working hours is not more than 40 hours. Normally, working hours is either 8 hours per day from Monday to Friday, or 7 hours per day from Monday to Friday plus 5 hours on Saturday.

E. Overtime

Under labour regulations overtime is payable as follows:

Table 5. Labour Regulation Overtime

Working Days	Basic Rate Multiple		
	Normal	First	After One Hour
- Monday to Saturday	-	1.5	2
- Sunday and public holidays	2	3	4

Sources: Department of Manpower and Transmigration

4.8. Pension

Pensions are regulated by the law.

5 TAXATION

5.1. *Withholding Taxes*

Payments of dividends, interests, royalties and technical and management fees for services performed in Indonesia to Indonesian and non-Indonesian residents are subject to withholding tax. The withholding tax rates may vary, depending on whether it is paid to a resident or non-resident as follows:

Payments to Indonesian residents (except for technical and management services 6%)	15%
Payments to non-Indonesian residents	20%

5.2. *Withholding Tax and Fringe Benefits for Employees*

Companies are responsible for withholding income-tax (Income Tax Act, Article 21). Article 9 (d) and Article 4 (a) cover fringe benefits, often called "benefit-in-kind".

Benefit-in-kind are generally excluded from the taxable income of an employee and at the same time are not recognised as an allowable deduction in determining the taxable income of the employer.

5.3. *Income Tax*

Income tax in Indonesia is progressive and applied to both individual(s) and enterprises. A self-assessment method is used to calculate the tax.

Table 10. The Tax Rates for Individuals:

Taxable for Annual Income	Income Tax Rate
Up to Rp. 25 million	5%
Over Rp. 25 million to 50 million	10%
Over Rp. 50 million to 100 million	15%
Over Rp. 100 million to 200 million	25%
Over Rp. 200 million	35%

Table 11. The Tax Rates for Enterprises:

Taxable for Annual Income	Income Tax Rate
Up to Rp. 50 million	10%
Over Rp. 50 million to 100 million	15%
Over Rp. 100 million	30%

Basically the Government provides a loss carried forward facility for a period of 5 (five) years.

5.4. *Expatriates*

A. Non-Resident Individuals

A non-resident individual being an individual in Indonesia for less than 183 days with no intention to reside, is deemed to be a non resident tax subject under the law if he receives or accrues any income from Indonesia. Non-residents are not required to register for tax purposes and are subject to tax by withholding tax obligations on the payer of any income sources in Indonesia. Income received or earned by a non-resident for any work and/or service performed in Indonesia is subject to a final withholding tax of 20% applied to the gross amount of the income. Payments to non-resident individuals in the form of dividends, interest, royalties, rents for property and compensation for technical, management and other services performed in Indonesia are also subject to a 20% withholding tax, subject to applicable Double Tax Agreement.

B. Special Provisions

There are no special provisions applicable to foreign nationals working in Indonesia.

5.5. *Land and Building*

Indonesia's land legislations do not recognise the concept of freehold land rights. Instead, the various rights attached to the land are subdivided into separate titles. The Basic Agrarian Law (Law No.5 of 1960) recognised type of rights on land of non-state forest areas, whereas for the state-forest areas, the law No.5 of 1967 on forestry is applied. For foreign as well as domestic investors, the following three main rights are significant:

1. The Land Cultivation Right (Hak Guna Usaha, abbreviated as HGU). By Law, title is granted for a maximum period of 35 years, but can be extended by 25 years if the land is properly used and managed.

2. The Right of Building on Land (HGB). The title is granted for a maximum period for 30 years and can be extended for a maximum period of 20 years.

3. Right of Use on Land (HP) is the right to use land for a specific purpose and granted for a period of 25 years and can be extended for period of 20 years or as long as the land is used for certain (normal) utilisation.

A dwelling house or a residence that can be owned by a foreign person shall be:

- A separate house constructed on a piece of land with the right of utilisation on state land or controlled on the basis of an agreement with a land holder
- An apartment constructed on a piece of land with the right of utilisation on state land.

Foreign investors who obtain mining contracts from the Minister of Mines and Energy or the Respective Governor/the District Head or forest exploitation rights and/or plantation right from the Ministry of Agriculture or the Respective Governor/District Head can use the land within their business license. If investors want to use the land for different purposes, a special application should be submitted to the Ministry or the respective Governor/District Head concerned. These rights have no collateral value to the owner.

5.6. Avoidance of Double Taxation Agreements

To avoid incidental double taxation on certain income such as profits, dividends, interests, fees and royalties, Indonesia has signed agreements (tax treaties) with the 50 countries as follows:

1. Australia	18. Malaysia	35. Sri Lanka
2. Austria	19. Mauritius	36. Sudan
3. Belgium	20. Mongolia	37. Sweden
4. Bulgaria	21. Netherlands	38. Switzerland
5. Canada	22. New Zealand	39. Syria
6. Czech Republic	23. Norway	40. Taiwan
7. Denmark	24. Pakistan	41. Thailand
8. Finland	25. The Philippines	42. Tunisia
9. France	26. Poland	43. Turkey
10. Germany	27. Romania	44. Ukraine
11. Hungary	28. Saudi Arabia	45. United Arab Emirates
12. India	29. Seychelles	46. United Kingdom
13. Italy	30. Singapore	47. USA
14. Japan	31. Slovakia	48. Uzbekistan
15. Jordan	32. South Africa	49. Venezuela
16. Kuwait	33. South Korea	50. Vietnam
17. Luxemburg	34. Spain	

The general tariff before using the agreement is 20%. With use of a double tax agreement the rate is between 10-15%.

5.7. Indirect Taxes

A. Value Added Tax and Sales tax on luxury goods

In normal cases 10% Value Added Tax (VAT) is applied to imports, manufactured goods and most services. In addition, there is also sales tax on luxury goods ranging from 10% to 75%.

B. Stamp Tax

Stamp duty is nominal only at either Rp. 3,000 or Rp. 6,000 on certain documents. The rate of Rp. 6,000 is applicable for letters of agreement and other letters. For all documents bearing a sum of money, the rate is Rp. 6,000 when the value stated in the document is more than Rp. 1 million and Rp. 3,000 when the value is between Rp. 500,000 and Rp. 1 million. Below Rp. 500,000 is not subject to stamp duty. For cheques, the rate is Rp. 3,000 regardless of money value stated.

C. Customs Duty

Indonesia has adopted the Customs Co-operation Council Nomenclature. Rates of customs duties range from 0% to 100% with luxury items liable for duties of up to 225%. There are four main categories of import. Items identified as of crucial importance attract a duty of between 0% and 10%. Essential but not crucial items may be taxed between 10% and 40%. Less essential items attract a duty of 50% to 70%, while luxury items attract a duty of 100%. The latter two categories include goods which are produced locally and the tariffs are imposed partly as a protectionist measure.

D. Development Tax

Development tax is a municipality tax for the development of cities and is levied at the rate 10% on restaurant and hotel bills.

E. Foreigners Tax

Foreigner tax is a minor tax payable annually by foreigners and dependents residing in Jakarta.

F. Transport Tax

There is a transport tax called a motor-vehicle tax. This type of tax, together with some other taxes, are known as regional or local taxes which fall under the Home Affairs Ministry's jurisdiction and are collected by the local government.

G. Fiscal Tax

The fiscal tax rate is a single payment of Rp. 1 million which is payable by permanent residents, including expatriates, upon departure from Indonesia, at the point off embarkation. Exemption from tax is accorded to foreign diplomats, foreign employees of international organisations and foreign consultants with service visas.

F. Miscellaneous Taxes

There are other minor household and similar taxes, under the jurisdiction of the Ministry of the Interior, levied by certain regional governments or districts throughout Indonesia.

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MEMBER FIRM CONTACT DETAILS

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